United States Department of State

Department Notice

Office of Origin: HR/RET
Announcement Number: 2004_06_033
Date of Announcement: June 14, 2004

Retirement Planning for Civil Service Employees - 2004

This Notice is intended as a resource document for Civil Service (CS) employees covered by a federal retirement plan and certain Foreign Service National (FSN) employees covered by the Civil Service Retirement System. A separate retirement planning Notice is issued for Foreign Service (FS) employees. We ask that personnel offices destroy copies of the last Retirement Planning for Civil Service Employees Department Notice and retain extra copies of this year's Notice for purposes of counseling employees. This information is also available through the Department's Intranet site http://hrweb.hr.state.gov/ret/index.html.

Table of Contents

Q) How to File an Application for Retirement
1. Selecting a Date of Retirement
2. Processing of Your Retirement Application
3. How to Obtain Further Information

A) Retirement Coverage

The starting point for retirement planning is for the employee to determine under which retirement plan he or she is covered. There are three major Civil Service Retirement plans, each covering employees who entered the federal service, or returned to it after an extended absence, during a specific time period.

1 - Civil Service Retirement System (CSRS). This is the so-called "old" retirement plan. In general, participation in this plan is limited to those who initially entered the federal service prior to 1/1/84 and (1) have been continuously employed by the United States Government (USG) since 12/31/83 or before, or (2) have had a break in federal service of one year or less since 1984. Employees who are enrolled in this plan contribute 7.0% of their basic pay to the CSRS. This is the only Federal retirement plan which had been open to FSN employees. The CSRS appointing authority for FSN's was gradually withdrawn during the 1960s through 1980's on a post-by-post basis.

2 - Civil Service Retirement System (CSRS) Offset. This plan was developed during the period 1984 through 1986 when Congress was devising a plan to put new Federal employees under social security (FICA) coverage. Participants in this plan are covered by both the old CSRS and social security. In general, participation in this plan is limited to Federal employees who had at least five years of creditable civilian Federal service prior to 1/1/87, and who rejoined the Federal service since 1/1/84 after a break of CSRS coverage of more than one year. Employees who are enrolled in CSRS Offset contribute .8% of basic pay up to $87,900 (in 2004) to CSRS and 6.2% of this basic pay to social security. On all annual income in excess of $87,900, they contribute 7.0% of basic pay to CSRS. (Unless otherwise noted, all references in this notice, which address CSRS, also apply to CSRS Offset.)

3 - Federal Employees Retirement System (FERS). This is the "new" retirement plan for Civil Service employees; all employees covered by FERS are also covered by social security. In general, all CS employees newly hired since 1/1/84 are mandatorily covered by FERS. In addition, employees rehired after 1/1/84 who had less than five years of prior civilian service as of 12/31/86, are mandatorily covered by FERS. One who receives a new appointment can often elect FERS coverage voluntarily during the first six months of the appointment. An employee covered by FERS pays .8% of basic pay up to $84,900 (in 2002) to FERS and 6.2% to social security. When the employee's basic pay reaches $84,900, the social security deductions (except Medicare) end and the employee pays only .8% of basic pay above that level to FERS. Employees covered by FERS are eligible for government contributions to an account in the Thrift Savings Plan, details of which are found in Part J. FSN employees are ineligible to participate in FERS.

> Note: Social Security and Medicare. Employees should note that a few types of appointments confer no eligibility in a Federal retirement system, but require participation in social security (FICA). Likewise, employees in the CSRS Offset and FERS plans are required to participate in social security as well. In addition, all Federal employees are required to contribute to Medicare, which requires withholding of 1.45% of basic pay.

* Note: Unless stated otherwise, all references to "employees" should be considered CS and FSN employees who are covered by the retirement plans addressed in this Notice. FS employees may also be eligible for some of the benefits described herein, but their entitlements are not addressed in this

material.

B) Credit for Service

A basic factor in determining whether an employee is eligible for retirement and in computing the annuity benefit is the total of the years and months of the employee's creditable service. In general, employees will receive retirement credit for all types of Federal civilian and military service subject to the following general rules.

1) Civilian Service. Virtually all types of Federal civilian appointments qualify for credit, subject to the conditions on deposit or redeposit described below. Service which qualifies for credit, for example, includes all Federal employment in which the individual was appointed to a position in the USG, temporary Christmas appointments at the Post Office, service as a Peace Corps or VISTA volunteer, service in the D.C. Government (if first hired before 1987), etc. Periods of service under a personal service contract or personal services agreement do not qualify for retirement credit, unless the FSN applied for and received approval for credit under P.L. 100-238 in 1991. Employees also receive up to 6 months credit in any calendar year for periods of Leave Without Pay (LWOP) from a Federal job and full credit for any periods during which workers' compensation benefits were paid from the Department of Labor. Employees receive no credit for periods of Intermittent No Work Scheduled (INWS) status under the Family Member Appointment (FMA).

Passport employees who work as a "seasonal When Actually Employed" (WAE) may wish to note that under the Office of Personnel Management’s (OPM) newly (5/23/03) revised guidelines, WAE employees are NOT entitled to up to six months of retirement credit for any periods of LWOP in a calendar year. Credit is NOT allowed for non-work time for seasonal Passport employees who are placed in intermittent (WAE) status. For those periods, employees are only entitled to credit for time they actually worked.

2) Military Service. In general, military service is creditable when the individual served on active duty and received an honorable discharge. If the individual was awarded military retired pay (based on a 20 year military retirement), the military service is not creditable unless the recipient waives the military retired pay. However, an individual who is awarded military retired pay under the provisions of Chapter 67 of Title 10 U.S.C. (at age 60 based on service in the reserves), can keep the military retired pay and still receive credit for the periods of active duty.

Military Service Deposits. If the military service took place prior to 1/1/57, it must be used in the computation of the annuity, but cannot be credited towards social security. If the military service was performed on or after 1/1/57, it is creditable in the social security benefit. If the military service was performed on or after 1/1/57 and either (a) it is used in a social security benefit, or (b) the employee was first hired by the government after 9/30/82, the military service cannot be credited in the annuity of a CSRS employee unless the employee pays a 7% military deposit, plus interest. If the military service was performed on or after 1/1/57, it cannot be used in the computation of a FERS annuity unless the employee pays a 3% military deposit, plus interest.

Note: A civilian service deposit or redeposit can be made after retirement while OPM is computing the annuity, but a deposit for military service must be paid to the employing agency before the employee retires. Otherwise, the military service cannot be credited, as explained above.

3) Civilian Service Deposits. If a CSRS employee performed civilian service during which no retirement deductions were withheld, and the service was performed prior to 10/1/82, the service time will be counted in the annuity, subject to a small reduction. If a CSRS employee had service on or after

10/1/82, which was not subject to CSRS withholding, the employee must pay the deposit due or the service will not be counted in the annuity computation.

If a FERS employee performed a type of federal employment for which no retirement deductions were withheld, the service will not be counted in the annuity unless a deposit is paid. If a FERS employee performed a type of employment not subject to retirement withholding, and the service was performed after 12/31/88, the FERS employee cannot purchase credit for the service. Under a new law, the FY 2002-2003 State Department Authorization Act, employees and annuitants may purchase FERS service credit for service during the period January 1, 1989 through May 23, 1998 performed as an Eligible Family Member under a part-time (16 hours a week or more), or full-time temporary appointment for periods that lasted at least 90 days. We are waiting for OPM to write regulations to implement this law.

In general, the rate of deposit due for most service after 12/31/69 is 7% of basic pay, plus interest. If the deposit period occurred before 10/1/82, interest on the deposit accrues at 3.0% per year. For a deposit period occurring on or after 10/1/82, annual interest on the deposit accrues at a variable market rate, which was 5.5% for 2002.

4) Redeposits: If a CSRS employee received a refund for retirement deductions withheld for a period of past civilian service, the employee must repay the refund, plus interest (which together constitute the redeposit due) in order to receive credit in the annuity calculation. Under a new retirement provision the retiring employee is entitled to have the annuity computed with credit for the service and reduced by the actuarial value of the refund, provided that the redeposit is based on a period of service ending on or before 9/30/90.

For example, assume an employee had 30 years of service, but 15 of those 30 years were service for which a refund of retirement deductions was paid and not redeposited. Under the old law, the annuity would have been reduced by almost 50%. Under the new law, assuming the refund period ended on or before 9/30/90, the employee does not have to repay the refund, and still receives credit for the service, but the annuity is reduced by about 5% rather than 50%.

If a FERS employee had a type of employment for which retirement deductions were withheld while under FERS and subsequently refunded, the service will not be counted in the annuity. A FERS employee who had received a refund of CSRS retirement deductions may redeposit that refund, plus interest.

In general, the interest on any refund dated prior to 10/1/82 accrues at 3.0% per year. In the case of refunds paid on the basis of applications dated on or after 10/1/82, annual interest accrues at a variable market rate, which is 5.5% for 2002. OPM will allow any employee who has not paid a redeposit, the opportunity to do so before the final rate of annuity is established at the time of retirement.

Note: A new law allows employees, who had been paid a refund of CSRS deductions for a period of employment ending on or before 9/30/90, to receive credit for the service without making a redeposit. See Section (F) for details.

C) Age and Service Requirements for Retirement Eligibility

Age and years of service determine whether an employee is eligible to retire on a voluntary or involuntary basis, and whether the employee would qualify for an immediate or deferred annuity. A brief summary of the conditions for eligibility for retirement and immediate or deferred annuities under the three systems follows.

Immediate Annuity/CSRS

In order for an employee to be eligible for an annuity under CSRS, he or she must have at least five years of civilian service, the last year of which was subject to CSRS withholding, and meet a years-of-service requirement based on age:

Age	Years of Service (civilian/military)	Other Requirements
62	5	None
60	20	None
55	30	None
50	20	Involuntary Retirement
Any*	25	Involuntary Retirement
Any*	5	Disability

*An employee under CSRS with 25 or more years of service, who is subject to involuntary retirement, is eligible for an immediate annuity at any age. An employee under CSRS with 5 or more years of service, who has been approved for disability retirement, is eligible for an immediate annuity irrespective of age.

Deferred Annuity/CSRS

An employee under CSRS who has five years of civilian service but fails to meet the length of service requirements for his or her age at time of separation (e.g., the employee is age 60 but only has 18 years of service), can either receive a refund of retirement deductions, or a deferred annuity at age 62.

Note: An FSN who (a) had five years of civilian service when they transferred retirement coverage from CSRS to a Local Retirement Plan, (b) did not receive a refund of retirement deductions and (c) remains employed under an appointment, will become a "reemployed annuitant" at age 62 when applying for a deferred annuity (see Sec. H). Reemployed annuitant status may be avoided by changing the employment of such an FSN from appointment to Personal Services Agreement, priorto the employee's 62nd birthday.

Immediate Annuity/FERS

In order for an employee to be eligible for an annuity under FERS, he or she must have at least five years of civilian service and meet the following years of service requirement:

Minimum Age	Years of Service (civilian/military)	Other Requirements
62	5	None
60	20	None
55-57	30	None
55-57	10	See Below
50	20	Involuntary Retirement
Any*	25	Involuntary Retirement
Any*	1.5	Disability Retirement

*An employee under FERS with 25 or more years of service, who is subject to involuntary retirement, is eligible for an immediate annuity at any age. An employee under FERS with 1.5 or more years of service, who has been approved for disability retirement, is eligible for an immediate annuity irrespective of age.

Early Annuity/FERS

An employee under FERS with five years of civilian service, who fails to meet the length of service requirement for his or her age at time of separation (e.g., the employee is age 60 but only has 18 years of service), can receive a deferred annuity which begins at age 62. In addition, a FERS employee who has ten years of service can qualify for an immediate or deferred annuity at age 55-57. The annuity payable at age 55 is subject to an age-based reduction of 35%, which is calculated as 5% for each year under age 62.

D) Computation of Retirement Annuity

The formula to compute an employee's basic retirement annuity is based on two factors, the employee's years and months of service credit and the employee's so-called "high-three average salary". The annuity of part-time employees is computed under a special formula.

"High-Three Average Salary": All Federal retirement benefits are computed as a percentage of the employee's average annual salary during the employee's highest paid 36 consecutive months of Federal service, known as the employee's "high-three average salary". In practice, this usually means the employee's salary over the final three years of employment. The salary figure in the "high-three average salary" refers to basic pay for the position. It includes locality pay and administratively uncontrollable overtime for certain law enforcement officers. It does not include regular overtime, differentials, awards or bonuses. For FSN’s, the high-three is based on earnings over the 78 consecutive pay periods of highest earnings in U.S. dollar terms.

CSRS Retirement Annuity Benefits:

The basic annuity of an employee covered by CSRS is computed as follows:

1.5% of high-three average salary for first five years of service.
1.75% of high-three average salary for next five years of service.
2% of high-three average salary for service in excess of ten years.

Note: Unused sick leve time can be added to the service time in the computation of a CSRS annuity, or in the computation of a CSRS component to a FERS annuity. Unused sick leave cannot be used in counting the service needed to establish eligibility for an annuity, nor be counted in a FERS annuity that does not have a CSRS component.

A quick way to compute the percentage of the average salary is to multiply the years of service by 2 and deduct 3.75%. For example. an indivdual with 30 years of service would recieve 60% (30 x 2), less 3.75%, or 56.25 % of his or her high three average salary.

The basic annuity is reduced for several reasons:

1) By 2% for each year, or part thereof, the employee is under age 55. The age reduction only applies when the employee qualifies for an immediate annuity based on an involuntary/early out separation.

2) By 10% of any outstanding deposit (refer to page 4, B. 3. on civilian service deposits). Assume an employee had an unpaid deposit of $1,500.00, which represented 7% of the pay for that period, plus interest. The annuity would then be reduced by $150.00 per year or $12.00 per month. It is generally not worthwhile to pay a deposit for a period of service before 10/1/82 because the rate of accrued interest (3%) and the reduction in the annuity are so small.

3) For any survivor benefit, the reduction is 2.5% for the first $3,600.00 of the basic annuity, and 10% of any base amount in excess of $3600.00. The survivor annuity is always calculated to be 55% of the base annuity amount for that benefit. For example, if the basic annuity was $20,000 and the maximum survivor benefit was elected, the reduced employee annuity would be $20,000 less $90 (2.5% of $3600) and less $1,640 (10% of $16,400), or $18,270. The survivor annuity would be 55% of $20,000, or $11,000.00.

Note: A quick way to compute the annuity reduced for the survivor benefit is to multiply the basic annuity by 90% and add $270.00.

Remember that the survivor benefit reduces the retirement annuity. The CSRS law requires that the annuity of a married employee be reduced for the maximum survivor benefit, unless the spouse consents to a smaller survivor annuity or waives the survivor annuity altogether at the time of retirement. The CSRS law also requires that the annuity be reduced to provide a survivor benefit for any former spouse, if the divorce occurred on or after 5/7/85, and the court awards a survivor annuity to the former spouse.

If the marriage is terminated by death or divorce the annuity will be recomputed to eliminate the reduction for the survivor benefit. The basic annuity is then reduced for any survivor benefit. Under CSRS, the reduction for the survivor benefit is 2.5% of the first $3600 used a base for computing the survivor benefit, and 10% of any amount exceeding $3600.00. In other words, the law was designed to make it especially attractive for employees to elect at least a minimal survivor benefit, since one can provide a monthly spousal survivor annuity of $165.00 and only incur an $8.00 monthly reduction in the retirement annuity.

CSRS Offset Annuity

A CSRS Offset annuity is computed exactly like an annuity under CSRS with one exception. If the employee becomes eligible for a social security benefit at age 62, the annuity is reduced by the amount of the social security benefit that is attributable to Federal employment that was covered by social security. If the employee is not paid the social security benefit due to excess earnings (see Section I), but is otherwise eligible, the CSRS Offset annuity is still reduced by the portion of the social security benefit attributable to Federal employment after 12/31/83.

FERS Retirement Annuity Benefits:

The basic annuity of an employee covered by FERS is computed as follows:

1% of high three average salary for each year of service.

If the employee retires at age 62, with at least 20 years or more of service, the annuity is computed at a slightly higher rate as follows:

1.1% of high three average salary for each year of service.

Note: If an employee voluntarily transferred from CSRS to FERS, and had over 5 years of service under

CSRS at the time of the transfer, the annuity under CSRS is computed under the CSRS formula (with frozen sick leave balance from last day under CSRS added in), and the annuity under FERS is computed under the FERS formula. These two benefits are added together to produce the combined benefit.

The CSRS component of a FERS annuity is reduced by 2% for each year the employee is under age 55 at the time of retirement. (This reduction only applies when the employee qualifies for an immediate annuity based on an involuntary separation.) If the employee receives a deferred annuity at age 55 with less than 30 years of service, the annuity is reduced by 5% for each year the employee is under age 62 as of the commencing date of annuity.

Since the FERS law requires payment of a deposit for service to be credited, there is no deposit reduction for a FERS benefit. However, if the employee switched from CSRS to FERS, the CSRS deposit reductions would apply.

Under FERS, the survivor annuity is always 50% of the employee's unreduced annuity. Unlike CSRS, survivor benefits under FERS can only be one of two benefits: (a) 50% of the annuity, or (b) 25% of the annuity. Thus, an employee with an annuity of $20,000 under FERS, who elected the maximum benefit, would receive $18,000 with a survivor annuity of $10,000.00.

The reduction for the survivor annuity under FERS is required under the same terms and conditions as the survivor annuity under CSRS.

FERS Annuity Supplement

A regular, but not Minimum Retirement Age (MRA), FERS annuity is increased by an annuity supplement of approximately $30-$35 a month for each full calendar year of federal service since 1984, that the employee was subject to social security. This annuity supplement stops at age 62, regardless of whether the employee is then eligible for social security. The annual annuity supplement is also reduced by $1.00 for every $2.00 in earned income above $11,640 (in 2004).

Ceiling on CSRS/FERS Annuity Benefits

Under the law, an annuity under CSRS cannot exceed 80% of the employee’s "high-three average salary", except for the benefit attributable to unused sick leave. An employee reaches the maximum annuity benefit of 80% of salary after 41 years, 11 months of service. When that maximum benefit ceiling is reached, the employee's annuity benefit is frozen in terms of years of service credit, although the annuity can still be increased by the higher average salary and additional sick leave. Also the employee becomes entitled to a refund of all retirement deductions, plus interest, effective the first of the month after the one in which maximum annuity benefits are attained. This refund of excess retirement contributions is paid in a "lump sum" check by OPM. See Section K for information on a new law that affects how the interest is taxed.

Under FERS, there is no ceiling on the amount of annuity payable. However, when an employee switches to FERS after serving 41 years, 11 months or more under CSRS, the CSRS benefit is capped at 80%, and the refund of excess deductions is payable, as described above. The employee again starts earning additional service credit when the FERS coverage begins.

E) Disability Benefits

An employee, who has completed a specific term of years of civilian Federal service, and who becomes totally disabled or incapacitated, may be found eligible for disability retirement by OPM.

Disability Benefits under CSRS

An employee under CSRS must have at least five years of civilian service, and be found by OPM to be totally disabled for useful and efficient service, to be considered for disability retirement. The disability annuity is computed like a regular CSRS annuity (see Section D) except that the disability annuity cannot be less than the smaller of (a) 40% of the employee's high 3 average salary or (b) an annuity computed under the regular formula, but projecting the service (not salary) to age 60.

Disability Benefits under FERS

In order for an employee under FERS to be eligible for a disability retirement benefit, he or she must have 18 months of service and be found by OPM to be totally disabled for useful and efficient service.

The rate of disability annuity for the first year of retirement is computed, if the employee is not eligible for regular retirement, as 60% of the high 3 average salary, less 100% of the social security benefit. The rate of disability annuity beginning the second year of retirement and until the employee reaches age 62, is 40% of the high 3 average salary, less 60% of the social security benefit. At age 62, the disability annuity under FERS is recomputed as though the employee had worked until age 62, and his or her salary were increased by the same cost-of-living adjustments (COLA's) granted FERS annuitants.

Note: In 1976, Congress eliminated virtually all tax breaks that had applied to retirement benefits under CSRS; therefore, there is no advantage, for tax reasons, for applying for disability retirement under CSRS or FERS, if one is eligible for regular retirement. Also, there is no advantage in the annuity computation of applying for disability retirement under CSRS, when on is over age 60, or has over 22 years of service, since the regular formula will apply. One disadvantage of applying for disability retirement is that it takes longer for OPM to process the application. Another disadvantage is that if one is critically ill, and eligible for regualr retirement, he or she could lose the option of electing a large, lump sum payment at retirement by choosing disability retirement, See Section F for further information. Of course, if an employee is not eligible for regular retirement, disability retirement may be only available option.

Disability Retirement vs. Workers Compensation

Employees who incur illnesses or injuries at the workplace may be eligible for compensation benefits from the U.S. Department of Labor. Compensation benefits from the Office of Workers Compensation Programs (OWCP), U.S. Department of Labor are not payable concurrently with Federal retirement benefits, except when the OWCP has authorized a schedule award for temporary compensation or reimbursement of medical expenses. Employees who are eligible for both regular compensation benefits and retirement annuity must elect one benefit in lieu of the other. In most cases, benefits from the OWCP are about 10-20% higher than the disability benefit; therefore, it is usually advantageous to elect the compensation benefit. In addition, OWCP payments are tax-exempt.

An employee who has been separated from Federal employment (retirement, resignation, etc.) may elect a refund of CSRS or FERS contributions, when OWCP has awarded benefits based on a work-related illness or injury. However, employees should note that OWCP survivor benefits are not payable unless the employee dies as a result of the illness or injury for which compensation benefits were awarded. Therefore, an employee who has been awarded compensation and separated from the USG would be well advised to apply for disability retirement. Even though payment of the CSRS or FERS annuity would be suspended, this would protect the rights of the surviving spouse and children to an annuity, in the event of accidental death.

(F) The Alternative Form of Annuity (AFA)

What is the AFA or Lump Sum Payment at Retirement?

The AFA provides an eligible employee with an option of electing a lump sum payment equal to the employee's unrefunded retirement deductions and a reduced monthly annuity, in lieu of a regular unreduced annuity. (There is no reduction for the AFA in the rate of annuity payable to surviving spouse.) In general, the annuity of one who is eligible to elect the AFA is reduced by about 10-l5%.

Who is eligible to elect the AFA?

(1) Only Foreign Service and Civil Service employees who are suffering from a life threatening illness or disease (who do not retire on disability) may elect the alternative form of annuity in one installment.

(2) All other employees are INELIGIBLE.

How is the lump sum payment distributed?

Employees under the CSRS or the FERS who have a life threatening illness are paid the AFA in one installment at retirement.

G) Survivor Benefits/Designation of Beneficiary

The death of an employee, while in service or as a post-retirement annuitant can trigger a variety of survivors' benefits. A surviving spouse and unmarried children can qualify for annuities under all retirement systems. In addition, a surviving spouse or next of kin of an employee under FERS who dies in service is entitled to a lump sum death benefit. Death overseas in the line of duty often entitles survivors to an additional lump sum death benefit. Employees need to complete, and keep current, the various designations of beneficiary forms to ensure prompt processing of benefits to the appropriate survivors in the event of the employee's death.

Death in Service of an Employee Covered by CSRS

If an employee enrolled in CSRS dies in service, with at least 18 months of service, the spouse receives a survivor annuity in the amount of 55% of the disability benefit described. For example, if an employee with an average salary of $50,000.00 dies in service with 10 years of service at age 30, the surviving spouse, if married at least 9 months (or a parent of a child), receives an annuity of 55% of 40% of $50,000, or $11,000.

Death in Service of an Employee Covered by FERS

If an employee enrolled in FERS dies in service, with at least 18 months of service, the surviving spouse receives a lump sum death benefit of about $24,866, plus 50% of final salary. For example, the survivor of a deceased employee under FERS with an annual salary of $50,000 receives (a) $24,866 plus (b) $25,000, providing a total lump sum death benefit of $49,866. If an employee under FERS dies with at least 10 years of service, the surviving spouse receives a survivor annuity, which is 50% of the earned (not projected) FERS disability benefit, in addition to the lump sum payments.

Death of a CSRS or FERS Annuitant

If a CSRS or FERS annuitant dies, the surviving spouse or surviving former spouse entitled to benefits (see Part D), receives the rate of survivor annuity set at retirement, plus whatever COLA's are applicable. The maximum survivor annuity payable to the surviving spouse of a CSRS annuitant is 55% of the retiring employee's unreduced annuity. The maximum survivor annuity payable to the surviving spouse of a FERS annuitant is 50% of the retiring employee's unreduced annuity.

Note: Under a new regulation that went into effect in May 1990, the FEHB enrollment for a survivor annuitant may continue even if the survivor annuity is not large enough to cover the cost of the premium. All that is required is that the surviving spouse be eligible for a survivor annuity of at least $1.00 a month; this will allow the surviving spouse to pay the FEHB premium directly to the government.

Benefits to Children When an Employee or Annuitant Dies

Children of employees who die in service while covered under CSRS or FERS, and who had at least 18 months of Federal civilian service, and children of deceased CSRS and FERS annuitants, are automatically entitled to a survivor annuity. Each child receives approximately $378 per month, per child (maximum 3 children) if single orphan, and $453 per month, per child (maximum 3 children) if double orphan.

The monthly annuity is payable provided the child is unmarried and (a) under age 18, or (b) under age 22 and a full-time student. Children of deceased annuitants or employees as described above, who are incapable of self-support due to a disability incurred before age 18, are also entitled to the monthly survivor annuity. The benefits are payable by operation of law and do not require an election or contribution by the employee. If a FERS employee or annuitant dies, any benefits that are payable to the children are reduced by their social security benefits.

Benefits which Accrue when Death due to Terrorism or Hostile Action

If an FSN or CS employee under a FS appointment dies overseas in line of duty, the survivors can receive a lump sum death benefit of one year's salary, in addition to any benefits previously described. If an FSN or CS employee dies anywhere as a result of hostile (terrorist) action, a lump sum death benefit is also payable, but this benefit is reduced by whatever other survivor/death benefits are payable by the USG. If the death is due to terrorism, tax exemptions may also be granted to the survivor(s) for first year of death and the year preceding death.

Death in Line of Duty

Certain disability and survivor benefits are payable by the U.S. Department of Labor to employees who die, or become disabled, due to work-related illnesses or disabilities, and/or to surviving spouses and children. These benefits are generally about 10% to 20% higher than the disability/death benefits payable under the retirement system, but the employee/survivor cannot receive compensation benefits and annuity benefits concurrently and must elect one benefit in lieu of the other. OWCP benefits are not taxed in the U.S.

Designation of Beneficiary

There are several different forms that may be used to designate a beneficiary, as explained below.

SF 2808 - Designation of Beneficiary for CSRS Benefits
SF 3102 - Designation of Beneficiary for FERS Benefits

SF 1152 - Designation of Beneficiary for Unpaid Compensation (salary or leave)
SF 2823 - Designation of Beneficiary for Federal Employees Group Life Insurance
TSP 3 - Designation of Beneficiary for TSP

The purpose of completing a Designation of Beneficiary (DOB) form is to name the beneficiary of any lump sum payments that may be payable following the death of an employee. A designation of beneficiary form does NOT affect one's eligibility for a survivor annuity. Separate forms are used for (1) unpaid salary/leave, (2) retirement benefits, and (3) life insurance.

If an employee fails to execute a DOB form, the law provides for automatic payment of benefits by order of precedence. The advantage of completing a DOB form, besides the ability to include or exclude specific heirs, is that benefits can usually be adjudicated more quickly because there is no question of entitlement, if the most recent DOB is on file. The disadvantage of completing a form is that it may have to be updated as potential heirs are born and named heirs pass away. For example, consider the situation of one who has three children A, B, and C, each of whom has three children (grandchildren of the employee) called A-1, A-2, A-3, etc. If an employee names A, B and C as beneficiaries, and C dies before the employee, the children of C (C-1, C-2 and C-3) inherit nothing. On the other hand, if there is no surviving spouse and the same circumstances apply except that no DOB has been executed, C-1, C-2 and C-3 will each inherit one ninth of the benefit payable.

Another factor to consider is that when FERS was enacted, the law provided that all SF-2808's of FERS employees were invalidated. Thus, an employee who has changed from CSRS to FERS may wish to execute an SF-3102, Designation of Beneficiary.

H) Reemployment with a Federal Agency

In general, a CSRS or FERS annuitant who is reemployed by a Federal Government agency would continue to receive his or her annuity. However, his or her salary will be reduced in the amount of the annuity allocable to the period at employment. In other words, the reemployed annuitant would be working for the difference in the hourly rate of salary and the hourly rate of the annuity. For example, if the annuity were $30,000 per year and the salary $45,000 per year, the adjusted salary of the reemployed annuitant would be $15,000. The requirement that the salary be reduced applies to any type of USG employment, including part-time, temporary or intermittent (WAE).

Employees who receive a buyout must repay it if they are reemployed by appointment or personal services contract within 5 years of retirement.

There are four situations in which the annuity of a reemployed CSRS or FERS annuitant is terminated, as follows:

1) A CSRS annuitant retired involuntarily and is reemployed in a position subject to CSRS coverage, or

2) A CSRS annuitant retired for any reason and is reemployed under a Presidential appointment, or

3) A CSRS annuitant is reemployed and elects FERS coverage during reemployment, or

4) A FERS or CSRS disability annuitant is reemployed and OPM finds that the employee is recovered from the disability for which he or she retired.

If any of the above conditions apply, the annuity is terminated upon reemployment and recomputed after the period of reemployment ends, reflecting credit for the additional salary and service. If, for any reason, the new period of employment cannot be counted in the annuity, payment of the old annuity is resumed with intervening COLA's.

There are two exceptions that allow a CSRS or FERS annuitant to receive full salary and full annuity concurrently. Under P.L. 100-509, an annuitant may receive full salary and full annuity when (1) there is "exceptional difficulty in recruiting or retaining a qualified employee", or (2) the employee is serving on a temporary basis in emergency situations involving a "direct threat to life or property or other unusual circumstances". The provisions of this law, which became effective 5/5/91, require that OPM approve the waiver (of the normal reemployed annuitant provisions) on a case-by-case basis.

If a CSRS or FERS annuitant is reemployed under a personal service contract, the person receives full annuity and full compensation from the contract because the courts have ruled that individuals hired under contract are not considered Federal employees.

I) Social Security/Medicare

Sooner or later virtually every employee will become eligible for some kind of social security benefit. Employees under the FERS retirement system make regular payroll contributions to social security and can expect to be entitled to eventual social security retirement benefits. A share of CSRS employees may also qualify for these benefits on the basis of a combination of social security credits through military service and/or civilian employment before and after their civil service careers. In addition, through their current payroll contributions to Medicare, all CSRS and FERS employees will qualify for the hospital insurance component of Medicare coverage once they reach age 65. Employees who wish to contact the Social Security Administration (SSA) may do so by calling the SSA's toll free number, 1-800-772-1213, weekdays during the hours 7 a.m. to 7 p.m.

1) Eligibility. In general, an employee born in 1929 or later can retire under social security with 40 quarters of coverage on a reduced annuity at age 62, or a full annuity at age 65. An employee, who is born before 1929, can retire with less than 40 quarters of coverage. The formula for computing the quarters of coverage needed for one born before 1929 is the year of birth plus 11. For example, one born in 1928 needs 39 quarters of coverage; one born in 1927 needs 38 quarters of coverage, etc.

One can receive up to 4 quarters of coverage each year. In 2004, one must earn $3600 at anytime during the year to receive credit for 4 quarters of coverage ($900 earns one quarter of credit). Prior to 1978, an employee had to work during and earn at least $50 in each quarter of the year to earn a quarter of credit. Thus, it is much easier now for one to earn social security credits by working seasonally than it was before 1978.

2) Formula for Computing Benefits. The formula for computing social security benefits is based on a percentage of weighted earnings, adjusted for inflation, based on a presumptive standard number of years of creditable employment. For most people, the social security benefit is computed on earnings spread over a 35-year period. Most individuals can increase their benefits by working additional years because every year with social security earnings can "replace" a year without social security earnings, thereby increasing the wage base used to compute the overall benefit.

In 2004, the average monthly social security benefit was about $925.00 a month. In 2004, the maximum benefit based on 35 computation years at the maximum earnings subject to social security, is about $1422 per month at age 62. In 2004, the maximum monthly benefit, payable at age 70, is $2,111.

The full social security benefit is payable at age 65. However, if you were born after 1937, the age at which full social security benefits are payable gradually increases from 65 to 67. If the employee elects the benefit at age 62, it is reduced by 20%, which amounts to a 6.67% reduction for each year (prorated monthly), the employee is under age 65. A recipient of a social security retirement benefit who is between 62 and 65, and continues to work, may lose all or part of their monthly social security benefit as a result of the "earnings test" applied to the individual's earned income over the year. For example, in 2004, a recipient of this benefit who was under age 65 would lose $1 of the social security benefit for every $2 of earned income over $11,640. Under a new law, there is no reduction in social security benefits based on income when one reaches age 65.

3) Benefits to Spouse and Children

When an employee qualifies for social security retirement benefits, the employee also confers a potential eligibility for separate benefits upon his or her spouse and children. The basic spousal benefit is 50% of the employee's benefit at the age at which the spouse applied for the spousal benefit. When a spouse is eligible for a spousal benefit, as well as for a social security retirement benefit on the basis of his or her own employment, only the higher of the two benefits is payable. Children of a retired employee receiving a social security benefit are entitled to separate benefits until age 18, or age 19 if in school, or at any age if the child is disabled.

An unmarried former spouse, who is age 62 or older, is entitled to receive benefits based on the covered employment record of the former spouse, if that person is also at least age 62, retired, and the marriage lasted at least 10 years. If the divorce took place at least two years ago, the divorced spouse can receive benefits even if the employee is not retired. The amount of social security benefits received by a former spouse does not affect the level of benefits to which a current spouse may be entitled.

4) Disability Benefits/Survivor Benefits

Social Security disability benefits may be payable to one who (a) has paid the necessary quarters of coverage, and (b) has paid into social security for five of the last ten years, and (c) is disabled to the extent that he or she is unable to perform any gainful activity. The disability benefit is computed as though the employee were age 65.

Reduced survivor benefits can be paid to the widow/er of a deceased worker at age 60, at the rate of 71.5% of the worker's full benefit. The formula for computing the reduction is 19/40 of 1% for each month the widow/er draws benefits prior to age 65. If the widow/er waits until age 65, the full worker's benefit is payable to the surviving spouse.

5) How Federal Retirement Affects Social Security

There are four different ways in which Federal retirement affects social security benefits or vice versa.

a) Windfall Elimination Provision. This law was enacted to offset the advantages Federal employees (who are entitled to annuity benefits) receive in the provisions of the social security law which intended to favor lower income workers. Under this law, a Federal employee who is entitled to both social security and Federal retirement is subject to a reduction in the social security benefit, which is the lesser of (a) half of the social security benefit or (b) $303.00 per month. However, the law does not apply to Federal employees who (1) were eligible to retire on or before 12/31/85, (2) were mandatorily covered by FERS, or (3) have 30 years or more of substantial earnings under social security. For this purpose, "substantial earnings" means income in excess of what $12,675 represents in 1998 dollars. One with 20, but less than 30 years of social security coverage, receives a moderated penalty.

b) Government Pension Offset. This law was designed to reduce the spousal social security benefits of one who is eligible for a Federal retirement benefit. It requires that the spousal social security benefit be reduced by $2.00 for every $3.00 the employee receives in Federal retirement benefits. As a practical matter, the maximum spousal social security benefit is about $1000 a month; therefore, anyone whose monthly annuity exceeds $1500.00 will not be entitled to a spousal entitlement.

It is useful to note that the spousal entitlement to social security is offset by one's own social security entitlement; therefore, anyone entitled to a social security benefit of at least $800.00 in his or her own right, is not adversely affected by this law. This law does not apply to anyone who (a) was eligible to retire from the USG before December 1982, or (b) was eligible to retire from the USG before 7/1/83, and was receiving one-half support from a spouse, or (c) switched to FERS before 1/1/88, or switched to FERS after 1/1/88 with 5 years of Federal employment covered by social security.
c) Military Service. Military service, performed before 1/1/57, may not be used in a social security benefit if it was used in the computation of an annuity. Military service performed after 12/31/56 may not be used in an annuity under CSRS when the employee reaches age 62 and becomes eligible for social security, unless the employee paid a military deposit based on 7% of military earnings, plus interest. Regardless of social security eligibility, military service performed after 12/31/56 may not be used in an annuity under FERS unless the employee paid a military deposit based on 3% of military earnings, plus interest.

Employees who wish to make a military deposit should complete and send the Estimated Earnings During Military Service (form RI 20-97) along with a DD 214 to the pay office for each branch of service. The pay center addresses are on the reverse side of RI 20-97. Forms may be obtained by visiting the OPM website: http://opm.gov/Forms/html/opm.asp or by contacting HR/RET. Once in receipt of your earnings, submit them to HR/RET.

d) CSRS Offset. The CSRS Offset annuity of an employee is reduced by the amount of the social security benefit attributable to the employee's Federal employment after 1983 that was covered by social security.

6) Medicare

Medicare is the national health insurance program for people who are 65 or older. Since 1/1/83, all Federal employees have been required to pay Medicare premiums (1.45% of salary/no limit), and are automatically entitled to Medicare coverage at age 65. There are two parts to Medicare: hospital insurance, called Part A, and medical insurance, called Part B. Hospital insurance is free of charge, but medical insurance requires a monthly premium. One must apply for Medicare coverage at age 65, usually at the time one applies for social security.

In the case of a person who reaches age 65 and is still working, the Federal Employees Health Benefits (FEHB) insurance carrier is the primary payer of benefits and Medicare (part A) is the secondary payer. When one is already retired when one reaches age 65, Medicare (part A) becomes the primary payer and the FEHB carrier is the secondary payer. Most Federal employees find it desirable to carefully review their existing FEHB plan coverage in light of Medicare coverage when they reach age 65. For example, if an employee has a high option FEHB plan and the employee and spouse are both eligible for Medicare, it is usually advantageous to change to a standard option FEHB plan since Medicare usually pays most benefits not covered by a standard option FEHB plan.

J) Thrift Savings Plan (TSP)/Voluntary Contributions

Enrolling in the TSP/Matching Contributions

In general, employees can sign up to contribute to the TSP during an initial 60-day eligibility period. Your automatic agency 1% contribution and, if you are already contributing, your matching contributions, will begin the last month of the second open season after you were hired. An employee must be covered by one of the Federal retirement systems (CSRS, CSRS Offset or FERS) to be eligible to participate in the TSP.

Employees enrolled in FERS receive an automatic contribution of 1.0% of salary. In addition, the first 3% of salary contributed by the employee is matched $1 for $1, and the next 2% contributed by the employee is matched $.50 for $1. Thus an employee under FERS, who contributes 5% of pay, will receive a total government contribution of 5%. Employees under FERS can contribute up to 14% of their basic pay, or the annual IRS ceiling ($13,000 in 2004), whichever is less. In addition, employees who reach age 50 (by 12/31/04) can make catch-up contributions of $3,000.00 in 2004. If an employee is covered by FERS and makes over $92,000 each year, he or she should ensure that contributions are low enough to allow the contributions to continue through the end of the year; otherwise, valuable matching contributions will be forfeited. Employees in the other retirement systems do not receive any Government TSP contributions, but they may contribute up to 9% of their pay to the TSP each year.

Investment Fund Options

There are five investment funds: the Government Securities Fund, known as the Government or (G) Fund; the Common Stock Fund, known as the Stock or (C) Fund; the Fixed Income Fund, known as the Bond or (F) Fund; the Small Capitalization Index or (S) Fund; and the International Stock Index or (I) Fund. Employees are free to allocate their TSP investments, and agency contributions, in any fund, at any time by using the TSP 50, TSP Website or Thriftline.

Investment Fund Options

Recently published information indicates the following rates of return on investments in the TSP:

	1999	2000	2001	2002	2003
G (Govt Sec)	6.0%	6.4%	5.4%	5.0%	4.1%
F (Fixed Inc/Bond)	(.8%)	11.7%	8.6%	10.27%	4.1%
C (Stock)	21.0%	(9.1%)	(11.9%)	(22.05%)	28.5%
S (Small Cap)			(2.2%)	(18.14%)	42.9%
I (International)			(15.4%)	(15.98%)	37.9%

Borrowing Options

Employees who participate in the TSP can borrow from their own contributions for any reason. Interest accrues on the loan at the rate of return on the Government Securities Investment (G) Fund from the time the loan application is received at the TSP Service Office.

Withdrawal Options

When an employee retires, he or she may immediately withdraw the amount in his or her TSP account, or defer withdrawal of the account. HR/RET will notify TSP that the employee has retired, and will provide the employee with the forms necessary to withdraw monies from their TSP account. An employee may withdraw from their TSP account in many ways, including a single lump sum payment, a series of equal lump sum payments, a monthly annuity with or without a survivor benefit, or cost-of-living adjustment. TSP withdrawals are fully taxable, but an employee may defer taxation by rolling over a TSP account into an Individual Retirement Account (IRA). An employee, who retires before the year in which he or she reaches age 55, and withdraws the TSP account in a single or series of lump sum payments, may be subject to a tax penalty on all amounts withdrawn before age 59-1/2.

TSP Lost Earnings

Employees are reminded that regulations now allow employees to be reimbursed for "lost earnings" due to administrative errors in processing valid TSP elections, errors in retirement code, etc. Any employee, who believes he or she is entitled to lost earnings under the TSP, should write HR/RET and provide as much documentation as possible. RM/CFSC will determine whether lost earnings are payable, notify the employee, and coordinate processing of any amounts due.

Additional information on the TSP may be obtained by contacting the National Finance Center on (504) 255-6000 or by visiting the TSP website: WWW.TSP.GOV.

Voluntary Contributions

Voluntary Contributions is an investment program available only to certain Federal employees. The voluntary contributions made by the employee are invested in the Civil Service Retirement and Disability Fund.

-- Eligibility to make voluntary contributions is limited to employees who are covered by the CSRS plan, or the CSRS Offset plan. Employees who are covered by the old (FSRDS) or new (FSPS) Foreign Service plans, or the new (FERS) Civil Service plan are NOT eligible to make voluntary contributions. Employees who shift from the CSRS or CSRS Offset plans to FERS, FSRDS or FSPS are not eligible to continue making voluntary contributions. However, they can leave whatever voluntary contributions they made as a CSRS or CSRS Offset employee in the account until they retire.

-- Employees who make voluntary contributions earn a fixed annual rate of return, announced in advance each year. In 2002, the rate of return was 5.5%. The voluntary contributions account of an employee must be closed at retirement, when an employee can elect (a) to receive a lump sum payment, or (b) to purchase additional annuity, which is added to the regular annuity.

-- In general, an employee at age 60, for example, can purchase additional annuity of about $8.00 per year for every $100.00 of voluntary contributions. (The basic formula for calculating the additional annuity is $7.00 a year, plus $.20 per year for each year the employee is over 55, for every $100.00 in voluntary contributions.) The additional annuity purchased by voluntary contributions is not increased by cost-of-living adjustments.

-- Unlike investments in the Thrift Savings Plan or an Individual Retirement Account, the voluntary contributions made by an employee are NOT excluded from taxable income. The interest earned on voluntary contributions, however, is not taxed until the voluntary contributions account is withdrawn.

-- Total voluntary contributions for an employee cannot exceed 10% of the total basic pay the employee received during all of his or her Federal service. An employee cannot make voluntary contributions until any outstanding deposits or redeposits are paid.

-- Employees can withdraw their voluntary contributions accounts at any time before retirement, but an employee who receives a refund of the balance in his or her voluntary contributions account cannot reopen another account unless the employee has had a break in Federal service after receiving the refund.

-- Employees who wish to make voluntary contributions should file an Application to Make Voluntary Contributions (SF 2804) with OPM. This form is available in HR/RET.

K) Lump Sum Payment of Annual Leave

At time of retirement, CSRS and FERS employees are entitled to a lump sum payment for the hours of unused annual leave they have accrued. Most civil service employees may not carry more than 240 hours of unused leave into a new leave year. The total unused annual leave hours are capped by this ceiling plus additional leave hours earned in the new year. CSRS and FERS members of the Senior Executive Service, however, are capped at 720 hours, or the amount of annual leave in effect on 10/15/94.

Basically, the lump sum payment is salary compensation for leave hours taken in the days and weeks after retirement. Therefore, an employee who becomes a reemployed annuitant with a Federal agency before the expiration of the time frame in which the projected annual leave is taken, would be obligated to repay a portion of the lump sum payment for days that the employee was also compensated for working, regardless of whether in a leave-earning, salaried position or as a WAE part-time employee.

The FY-92/93 State Authorization Bill, signed into law on l0/28/9l, ended prospectively the provision for adding the salary differential to the lump sum payment of annual leave payment for those employees who retire abroad while assigned to an overseas post. This new provision applies only to those who arrive at post on or after l0/28/9l. Anyone who retires from a post at which they arrived before that date is not affected by this legislation.

An employee in the SES, who is holding a Presidential appointment (i.e. holding a non-leave earning position), must be re-assigned to a leave-earning position before retirement to qualify for a lump sum payment. The payment would be computed on the basis of his or her SES salary rate. Otherwise, the lump sum payment would be computed on the basis of the salary rate of the employee's pre-SES position.

Under a new law, there is a cap on the amount of annual leave that SES employees can carry forward to a new leave year. The cap is the lesser of (a) 720 hours or (b) the amount of leave the SES employee had on 10/15/94. If the SES employee's balance of annual leave falls below the capped amount on 10/15/94, the leave cap is also reduced.

L) Taxation of Benefits

1) Federal Income Tax

Civil service annuity benefits are subject to Federal income tax unless the recipient is a non-U.S. citizen living overseas. All annuitants are entitled to a portion of tax-free annuity, which equals the amount of retirement contributions paid by the employee during his or her Federal career. The date of retirement determines the year in which the tax free amount of the annuity can be deducted from one's income for tax purposes, as explained below.

3 Year Rule: Employees who retired before 7/1/86 could take the tax deduction on their annuity (equal to the total retirement contributions and deposits) as soon as they retired. For most employees, this meant that the first 18-36 months of annuity payments were free of a Federal income tax liability. IRS refers to this provision as the "3 Year Rule".

General Rule: Employees who retired on or after 7/2/86 are still entitled to a tax deduction (equal to the amount of retirement contributions and deposits), but they cannot claim this tax deduction immediately upon retirement. They can only claim a small portion of the tax deduction each year, based on the value of their contributions divided by their actuarial life expectancy. For example, if an employee had a life expectancy of 20 years, 5% of the retirement contributions could be deducted from their taxable income each year.

Taxation of the Lump Sum Payment under the Alternative Form of Annuity (AFA). The lump sum payment under the AFA is fully taxable (unless as explained below, it is "rolled over" to an IRA). In a court case, now pending, some annuitants claim that the AFA should not be taxable because it is really a return of the employee's contributions. The position of IRS, however, is that the AFA is merely a prepayment of annuity benefits and it should be taxed like all other annuity benefits.

In general, 85-90% of the lump sum payment is taxable. (To obtain the percentage of the AFA that is taxable, the rate of annuity with the AFA is divided by the rate of annuity without the AFA.) If an employee retires before the year in which he or she reaches age 55, and elects the AFA, and declines to make a "roll over", there is a tax penalty of 10% of the taxable portion of the lump sum payment.

Under Public Law 102-318, certain lump sum payments that are authorized under CSRS and FERS can be "rolled over" to an Individual Retirement Account (IRA) if the lump sum payment is dated on or after January 1, 1993. The following types of lump sum payments, when dated on or after January 1, 1993, can be "rolled over" to an IRA:

- The taxable portion of a lump sum payment under the alternative form of annuity. In general, about 85% to 90% of the AFA payment is taxable, so this represents a significant tax savings for a retiring employee; and

- Interest on a lump sum payment under the AFA. There is no interest when an employee is paid the lump sum benefit under the AFA in a single installment. However, employees who retire involuntarily and elect the AFA can receive the lump sum payment in two installments. There is no interest on the first installment, but the second installment includes interest, which can now be "rolled over" to an IRA; and

- Interest on refunds of excess deductions. Under the law, employees who have more than 41 years, 11 months of service under CSRS have their annuity "capped" at 80% of high three average salary. They also receive a refund of the retirement deductions, plus interest, withheld thereafter. The retirement deductions that were withheld after 41 years, 11 months of service were never taxable, but the interest on those contributions is taxable. Under the new law, the interest on those "excess deductions" can be rolled over to an IRA.

Marriage to non-U.S. Citizen: Under a 1988 change to the inheritance law, the actuarial value of a survivor annuity benefit payable to a non-U.S. citizen is added to the value of the decedent's estate for tax purposes. The law may only adversely impact those with estates with a projected value that exceeds $675,000.00 (including the value of the survivor annuity), because of estate credits.

b) State Income Tax

The 50 states tax annuity benefits differently, as described below:

States with no personal income tax: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, Wyoming.

States exempting total amount of CS annuity benefits: Alabama, Hawaii, Illinois, Kansas, Kentucky, Massachusetts, Michigan, New York, and Pennsylvania.

States allowing partial exemption of CS annuity benefits: Arizona, Arkansas, Colorado, Connecticut, Delaware, District of Columbia, Georgia, Idaho, Indiana, Iowa, Louisiana, Maryland, Mississippi, Missouri, Montana, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Puerto Rico, South Carolina, Utah, Virginia, West Virginia and Wisconsin.

M) Continuation of Health and Life Insurance Coverage into Retirement

Under the law, employees who have been enrolled in the Federal Employees Health Benefits (FEHB) Program, or the Federal Employees Group Life Insurance Program (FEGLI) may continue these enrollments into retirement, provided the employee has been enrolled in these programs for the five-year period immediately preceding his or her retirement. An employee does not have to be continuously enrolled in a particular health benefits plan for five years (e.g., Blue Cross/Blue Shield) in order to continue participation into retirement. Employees who continue their FEHB coverage into retirement may change plans or options during the annual "FEHB" open season, held during November/December of each year.

There are four FEGLI programs available to employees: (1) Basic Life Insurance Coverage, (2) Option A ($10,000) Life Insurance Coverage, (3) Option B (Multiple of Salary) Life Insurance Coverage, and (4) Option C Family Life Insurance Coverage. An employee may only continue into retirement those FEGLI coverages the employee had for the five-year period immediately preceding retirement. Continuation of any of these enrollments requires payment of a premium until the employee reaches age 65, after which premiums stop and coverage is gradually reduced or eliminated. However, employees can elect to continue Basic Life Insurance or Option B after age 65 by paying the appropriate premium. Contact HR/RET for details.

Employees who are ineligible to continue FEHB or FEGLI enrollments into retirement will be provided an opportunity to convert these enrollments to private, non-group contracts with the applicable insurance carriers. Although the carriers are required to guarantee the conversion of these policies, they are free to set the premiums and level of benefits available in the converted policies.

Employees who leave Federal service without entitlement to carry an FEHB enrollment into retirement are eligible to continue the FEHB enrollment temporarily under a law that went into effect on 1/1/90. Under the new law, employees may continue the existing coverage under an FEHB plan by paying a full premium (employee plus agency contribution) and a 2% administration fee. This program allows the FEHB enrollment of an employee to continue for 18 months after separation from service, and the FEHB enrollment of a spouse, former spouse, or child to continue for 36 months after separation from service.

N) COLA's after Retirement

The law provides for cost-of-living adjustments (COLA's) for all annuity benefits under CSRS/CSRS Offset/FERS, as explained below:

-- All employee and survivor annuitants under CSRS/CSRS Offset receive a full COLA every year, which reflects the increase in the Consumer Price Index (CPI). The COLA is effective December 1 of each year and payable in the annuity payment dated January 2. The first COLA after retirement is prorated based on the number of months the employee had been on the annuity roll since the last COLA was awarded.

-- All employee annuitants under FERS who are 62 or older, all disability annuitants, and all survivor annuitants receive a COLA each year. The COLA is effective December 1 of each year and payable in the annuity payment dated January 2. If the CPI increases by 2% or less, the COLA reflects the full increase in the CPI. IF the CPI rises 2%-3%, the COLA is 2.0%.

> If the CPI rises by 3% or more, the COLA reflects the increase in the CPI, less 1%. COLA's do not increase the special retirement supplement. The first COLA after retirement is prorated based on the number of months the employee had been on the annuity roll since the last COLA was awarded.

O) Annuity (Estimate) Calculator

Employees can now use an online annuity calculator, available in e-Phone, to calculate their annuity benefits. In order to use the calculator, you will need to enter a retirement date (hypothetical) and the amount of your survivor election (maximum, minimum or none). The survivor election is a benefit payable to your surviving spouse after your death. The calculator will then verify that you are entitled to an annuity on a given date and estimate your annuity. If the calculator does not work for you, you can submit an Application for Annuity Estimate, DS-5000, to HR/RET for processing.

P) Planning Ahead

1) Retirement Planning Seminar. Employees in the Retirement Planning Seminar will learn about their annuity, financial and estate planning, tax issues, health and well being in retirement, volunteer work, continued employment and more. Experts in these fields will answer questions during a week of sessions, held six times a year at the Foreign Service Institute (FSI).

To attend a seminar an employee must be within five years of eligibility for voluntary retirement. Administrative and personnel officers who may find the information imparted at the Retirement Planning Seminar useful for counseling employees overseas are also welcome to participate at any convenient time. All employees attending the seminar are on duty status during the days they attend. Eligible employees who are on transfer to a post outside Washington will be authorized five additional days of consultation to attend the seminar. No additional transportation costs will be authorized.

Job Search Program. Employees who are interested in seeking full or part-time employment after retirement may wish to consult the Career Transition Center (FSI/CTC, SA-42, Room E 2101, Telephone: 703-302-7407, FAX: 703-302-7416) about participating in the Job Search Program. Employees in the program will get help in deciding what they want to do next, assessing skills, values and interests, preparing resumes, developing a network of people who can help in seeking a job, sharpening interviewing skills, and learning how to negotiate for compensation and benefits.

Civil Service employees of the State Department may participate in the first 30 days of the Job Search Program that most closely corresponds to their retirement date. The formal classroom part of the program lasts about four weeks. All participants may use the Career Transition Center facilities for up to one year after retiring.

Before beginning the program, participants must agree to retire when the program ends. Those who have not taken the Retirement Planning Seminar must do so at the beginning of the program. Those who have already retired may take part in the Job Search Program during their first year of retirement, but they must formally apply before retiring. Consultation days will not be authorized for the Retirement Planning Seminar when taken in conjunction with the Job Search Program.

2) Talent Bank. Those wishing to receive periodic lists of job leads may register in the Talent Bank by completing a registration form and sending it to the Career Transition Center. The forms are available from the Career Transition Center or from the Administrative or Personnel Office at Post. Retired employees may retain active status in the Talent Bank for two (2) years following retirement, during which they may continue to receive the Newsletter and Job Leads.

From time to time, registrants may be contacted directly concerning possible employment opportunities. This service is open to all employees.

Employees who wish to apply for the Retirement Planning Seminar or Job Search Program should send a DS-755, Request for Training, to FSI/EX/REG giving name, grade, post or office, retirement eligibility date and the program to be enrolled in.

Those who apply for the Retirement Planning Seminar must include approval from a supervisor. Those who apply for the Job Search Program should include the scheduled retirement date. Schedules are announced periodically by Department Notice and by cable to overseas posts.

For more information, see new 3 FAM 6100 or call the Career Transition Center at 703-302-7407.

Q) How to File an Application for Retirement

1. Selecting a Date of Retirement. The selection of an employee's actual date of retirement is a decision that should be based on careful research and planning. It makes a difference which month of the year and day of the month a person chooses to retire. Among the factors to consider are the following:

- If you are under CSRS or CSRS Offset, and you voluntarily retire during the first three days of the month, or the last day of the month, your annuity will begin the next day. If you are under FERS, and you voluntarily retire the last day of the month, your annuity will begin the next day; however, voluntarily retiring on any other day of the month, will delay the start of your annuity until the first day of the following month.

- If you are under CSRS, CSRS Offset or FERS and you involuntarily retire, or you retire on a disability retirement, your annuity will begin the next day.

- If you retire at the end of the pay period, you will be paid for the annual leave accrued for that pay period.

- If you retire by the end of the leave year, you will be paid for all leave.

- Legislation has been enacted which ends the provision for adding the salary differential to the annual leave payment of those who arrived at an overseas post on or after l0/28/9l. See Part K.

- Although every day of service potentially adds to the computation of the annuity, in reality, the days count only when they add up to full months. The extra days, including applicable sick leave, are dropped. In order to obtain maximum benefits, you should plan to retire with as few extra days as possible.

2. Processing of Your Retirement Application. The U.S. Office of Personnel Management (OPM), Office of Retirement Programs, 1900 E Street N.W., Washington, D.C. 20415, administer all retirement benefits under CSRS, CSRS Offset and FERS. OPM will certify records of service, process applications for deposit and redeposit, authorize payment of lump sum benefits and refunds of retirement deductions, and compute and authorize retirement and survivor benefits. OPM also acts as the payroll office for all CSRS/CSRS Offset/FERS annuitants, ensuring proper payment of monthly annuities, processing changes of tax withholding, changes of address or EFT requests, and managing the annual FEHB open season for annuitants.

In turn, the Department's role in the retirement process is to counsel employees and their families about retirement benefits, ensure that employees have the correct retirement code and service computation date (SCD), and prepare the personnel and accounting records that OPM needs to compute an annuity benefit. In this regard, several offices within the Department share responsibility:

-- The Office of Retirement, Bureau of Human Resources (HR/RET) is responsible for all retirement policy matters, including the administration of all Foreign Service Retirement programs, counseling CS and FS employees about retirement benefits, and administrating the Thrift Savings Plan for Department employees. HR/RET also prepares and certifies retirement records of CS employees and forwards them to the Bureau of Resource Management, Retirement Accounts Division for transmission to OPM.

-- The Retirement Accounts Division, Bureau of Resource Management (RM/RAD) is responsible for maintaining all accounting records of the Department’s employee retirement deductions, as well as maintaining the FS annuity rolls. RM/RAD also handles the certification of retirement records for domestic CS employees under CSRS/CSRS Offset/FERS, and FSN employees under CSRS, and transmits the same to OPM.

-- The Office of Overseas Employment (HR/OE) is responsible for all retirement policy issues that uniquely address FSN personnel.

-- The Executive Office of each bureau is responsible for the preparation of personnel actions in conjunction with retirement or separation actions of CS personnel, as well as, ensuring the accuracy of TSP eligibility dates for Bureau Personnel and adjustments of salary of reemployed CS annuitants. EX also coordinates operational problems with overseas posts and follows up on the preparation/certification of personnel records of CS employees who die in service.

-- The overseas Management/HR Officer is responsible for the preparation/certification of retirement records and personnel actions of FSN employees under CSRS, operational responsibility, counseling on retirement matters, and dissemination of materials for overseas employees.

3) Further Information/Applying for Benefits. Overseas FSN employees should contact their Management/HR officer at post for any information about retirement programs or benefits, or procedures for initiating an application for benefits. FSN retirement policy questions for State Department employees that cannot be resolved at post should be directed first to HR/RET.

Domestic CS employees should first contact their Bureau Personnel Officer for any information about retirement programs or benefits. The bureau executive office will then coordinate retirement counseling actions with HR/RET, who will process the application for retirement benefits. CS applications are certified by RM and then forwarded to OPM for adjudication.

The Department provides each State retiree with an attractive walnut plaque, engraved with the retiree's name and time of service. In addition, women receive a charm and men a pin. Retirement counselors will see to it that retirees receive these awards.

Any employee who has suggestions or recommendations for improving the retirement programs administered within the Department should contact HR/RET. Any suggestions are welcomed and appreciated.

◀ Return to previous page